



WEINLANDER FITZHUGH

CERTIFIED PUBLIC ACCOUNTANTS
& CONSULTANTS

ROBERT E. LIST, CPA
STEWART J. REID, CPA
MICHAEL L. HANISKO, CPA
DAVID D. QUMBY, CPA
KATHLYN M. ENGELHARDT, CPA
RENA E. M. CLEVINGER, CPA
AMY L. RODRIGUEZ, CPA
SCOTT A. NIETZKE, CPA

WALTER G. WEINLANDER, CPA
ROY A. SCHAIERER, CPA
JAMES L. WHALEY, CPA
JEROME L. YANTZ, CPA
PHILIP T. SOUTHGATE, CPA
ROBERT J. DUYCK, CPA

ARTHUR TOWNSHIP
CLARE COUNTY, MICHIGAN

FINANCIAL STATEMENTS
MARCH 31, 2006

601 BEECH STREET
POST OFFICE BOX 297
CLARE, MI 48617
989-386-3481
FAX 989-386-3462
www.wf-cpas.com
wf@wf-cpas.com

OFFICES: BAY CITY, CLARE
GLADWIN AND WEST BRANCH

RSM McGladrey Network

An Independently Owned Member

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name ARTHUR TOWNSHIP	County CLARE
Fiscal Year End MARCH 31, 2006	Opinion Date JUNE 6, 2006	Date Audit Report Submitted to State 8-7-06	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>	NO SIGNIFICANT ITEMS NOTED	
Other (Describe)	<input checked="" type="checkbox"/>	SAS 61 LETTER	
Certified Public Accountant (Firm Name) WEINLANDER FITZHUGH		Telephone Number 989-386-3481	
Street Address 601 BEECH STREET		City CLARE	State MI
Authorizing CPA Signature Shannon Wilson CPA		Printed Name SHANNON WILSON	Zip 48617
		License Number 1101027042	

TABLE OF
CONTENTS

	<u>Page</u>
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3a-3j
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Assets	4
Statement of Activities	5
Fund Financial Statements	
Governmental Fund	
Balance Sheet	6
Reconciliation of Balance Sheet of Governmental Fund to the Statement of Net Assets	7
Statement of Revenues, Expenditures, and Changes in Fund Balance	8
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Fund to the Statement of Activities	9
Fiduciary Funds	
Statement of Fiduciary Net Assets	10
Notes to Financial Statements	11-19
Required Supplemental Information	
Budgetary Comparison Schedule – General Fund	20



WEINLANDER FITZHUGH

CERTIFIED PUBLIC ACCOUNTANTS
& CONSULTANTS

ROBERT E. LIST, CPA
STEWART J. REID, CPA
MICHAEL L. HANISKO, CPA
DAVID D. QUIMBY, CPA
KATHLYN M. ENGELHARDT, CPA
RENA E. M. CLEVINGER, CPA
AMY L. RODRIGUEZ, CPA
SCOTT A. NIETZKE, CPA

WALTER G. WEINLANDER, CPA
ROY A. SCHAIRER, CPA
JAMES L. WHALEY, CPA
JEROME L. YANTZ, CPA
PHILIP T. SOUTHGATE, CPA
ROBERT J. DUYCK, CPA

Independent Auditors' Report

June 6, 2006

To the Township Board
Arthur Township
Clare County, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Arthur Township as of and for the year ended March 31, 2006, which collectively comprise the Arthur Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Arthur Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Arthur Township as of March 31, 2006, and the respective changes in financial position thereof for the year then ended, in conformity with U.S. generally accepted accounting principles.

601 BEECH STREET
POST OFFICE BOX 297
CLARE, MI 48617
989-386-3481
FAX 989-386-3462
www.wf-cpas.com
wf@wf-cpas.com

OFFICES: BAY CITY, CLARE
GLADWIN AND WEST BRANCH

RSM McGladrey Network

An Independently Owned Member



WEINLANDER FITZHUGH

To the Township Board
Arthur Township
June 6, 2006

As described in Note 1, the Government has implemented a new financial reporting model, as required by the provisions of the GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of April 1, 2005.

Required Supplemental Information

The management's discussion and analysis and budgetary comparison listed in the table of contents are not a required part of the basic financial statements but is supplemental information required by U.S. generally accepted accounting principles and the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Weinlander Fitzhugh

ARTHUR TOWNSHIP
Management's Discussion and Analysis
For the Year Ended March 31, 2006

Our discussion and analysis of the Arthur Township's (Township) financial performance provides an overview of the Township's financial activities for the fiscal year ended March 31, 2006.

Financial Highlights

The Township's net assets increased by \$7,254 or 3%. Program revenues were \$33,379 or 25% of total revenues, and general revenues were \$98,919 or 75%.

Using this Annual Financial Report

This annual financial report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Arthur Township financially as a whole. The *Government-wide Financial Statements* provide information about the activities of the whole Township, presenting both an aggregate view of the Township's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For Governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the Township's operations in more detail than the Government-wide financial statements by providing information about the Township's most significant fund – the General Fund, with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the Township acts solely as an agent or trustee. The following summarizes the presentation included in this annual financial report.

Management's Discussion and Analysis (MD&A) (Required Supplemental Information)

Basic Financial Statements

- Government-wide Financial Statements
- Fund Financial Statements
- Notes to Financial Statements

Budgetary Information for the General Fund (Required Supplemental Information)

Reporting the Township as a Whole

The Statement of Net Assets and Statement of Activities

One of the most important questions asked about the Township's finances is, "Is the Township better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Township as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector companies.

ARTHUR TOWNSHIP
Management's Discussion and Analysis
For the Year Ended March 31, 2006

All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

These two statements report the Township's net assets as a way to measure the Township's financial position. The change in net assets provides the reader a tool to assist in determining whether the Township's financial health is improving or deteriorating. The reader will need to consider other non-financial factors such as property tax base and facility conditions in arriving at their conclusion regarding the overall health of the Township.

Reporting the Township's Most Significant Funds

Fund Financial Statements

The Township's fund financial statements provide detail information about the most significant funds – not the Township as a whole. Some funds are required to be established by State law. Other funds are established to help it control and manage money for particular purposes or to meet legal responsibilities for using certain taxes, grants, and other sources of revenue. The Township's two types of funds, governmental and fiduciary, use different accounting approaches as further described in the notes to the financial statements.

Governmental Funds

Most of the Township's activities are reported in Governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detail short-term view of the Township's general operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources available to spend in the near future to finance the Township's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the basic financial statements.

ARTHUR TOWNSHIP
Management's Discussion and Analysis
For the Year Ended March 31, 2006

Fiduciary Funds

The Township is the trustee, or fiduciary, for tax collections. All of the Township's fiduciary activities are reported in the separate Statement of Fiduciary Net Assets. We exclude these activities from the Township's other financial statements because the assets cannot be utilized by the Township to finance its operations.

Township-wide Financial Analysis

The statement of net assets provides the perspective of the Township as a whole. Exhibit A provides a summary of the Township's net assets as of March 31, 2006:

Exhibit A	<u>Governmental Activities</u>
Assets	
Current and other assets	\$ 175,060
Capital assets - Net of accumulated depreciation	<u>82,999</u>
Total assets	<u>258,059</u>
Net Assets	
Invested in property and equipment -	82,999
Restricted	(679)
Unrestricted	<u>175,739</u>
Total net assets	<u><u>\$ 258,059</u></u>

ARTHUR TOWNSHIP
Management's Discussion and Analysis
For the Year Ended March 31, 2006

This analysis focuses on net assets. The Township's net assets were \$258,059 at March 31, 2006. Capital assets compares the original costs, less depreciation of the Township's capital assets.

The \$175,739 in unrestricted net assets of governmental type activities represents the *accumulated* results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the Township as a whole are reported in the statement of activities (summarized in Exhibit B), which shows the changes in net assets for the year ended March 31, 2006. Since this is the first year the Township has prepared financial statements following GASB Statement No. 34, revenue and expense comparison to fiscal year 2005 is not available.

ARTHUR TOWNSHIP
Management's Discussion and Analysis
For the Year Ended March 31, 2006

Exhibit B	<u>Governmental Activities</u>
Revenue	
Program revenue:	
Charges for services	\$ 27,779
Grants and contributions	5,600
General revenue:	
Property taxes	48,809
State revenue sharing	46,173
Other	<u>3,937</u>
Total revenue	<u>132,298</u>
Function/Program Expenses	
General government	58,131
Public safety	11,927
Public works	41,730
Highways and streets	9,360
Planning, zoning, and inspector	<u>3,896</u>
Total expenses	<u>125,044</u>
Increase in Net Assets	<u><u>\$ 7,254</u></u>

As reported in the statement of activities, the cost of all of our *Governmental type* activities this year was \$125,044. Certain activities were partially funded from those who benefited from the programs or by the other Townships and organizations that subsidized certain programs with grants and categoricals. We paid for the remaining "public benefit" portion of our governmental activities with \$48,809 in taxes, \$46,173 in State revenue sharing, and with our other revenues, such as interest and miscellaneous revenues.

The Township experienced an increase in net assets of \$7,254. Key reasons for the change in net assets was the contribution of a voting machine and less road construction expenses in the

ARTHUR TOWNSHIP
Management's Discussion and Analysis
For the Year Ended March 31, 2006

current year. The increase in net assets differs from the change in fund balance and a reconciliation appears in the financial statements.

The Township's Funds

The Township uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the Township is being accountable for the resources taxpayers and others provide to it and may provide more insight into the Township's overall financial health.

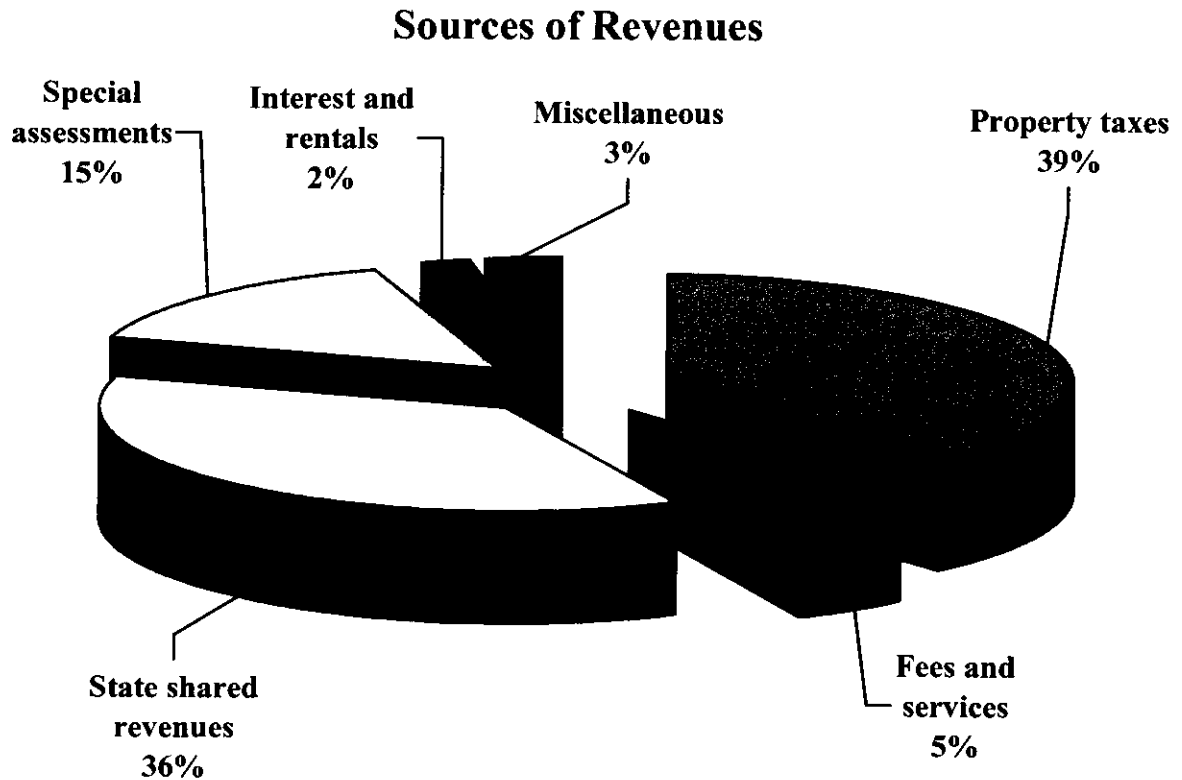
The Township's governmental funds reported a combined fund balance of \$175,060 which is above last year's total of \$171,346. The schedule below indicates the fund balance and the total change in fund balances as of March 31, 2006 and 2005.

	<u>Fund Balance</u> <u>March 31, 2006</u>	<u>Fund Balance</u> <u>March 31, 2005</u>	<u>Increase</u>
General	<u>\$ 175,060</u>	<u>\$ 171,346</u>	<u>\$ 3,714</u>

- Our General Fund increased \$3,714. The increase is due to balanced spending. Several projects were put on delay for future years. The increase was 2% over the prior year.

ARTHUR TOWNSHIP
Management's Discussion and Analysis
For the Year Ended March 31, 2006

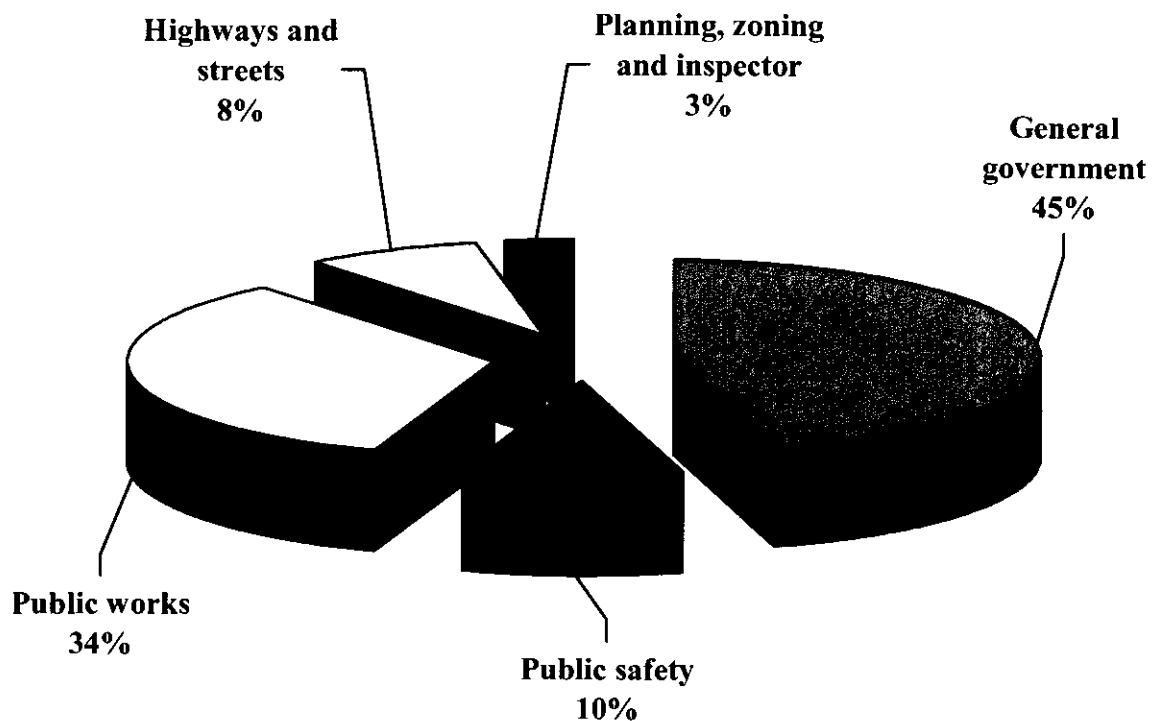
As the graph below illustrates, the largest portion of the Township's revenue comes from property taxes.



ARTHUR TOWNSHIP
Management's Discussion and Analysis
For the Year Ended March 31, 2006

The graph below illustrates, 34% of the Townships' resources are spent on public works for rubbish removal services. Another 10% is spent on public safety for fire protection services, while 45% is spent for general government expenses such as administrative costs and hall and ground, including utilities. The remaining 11% is spent on other services provided to the residents of the Township as listed below.

Expenditures



ARTHUR TOWNSHIP
Management's Discussion and Analysis
For the Year Ended March 31, 2006

The chart below compares current year expenditures with prior year.

	<u>2006</u>	<u>2005</u>
<i>Expenditures by Function</i>		
General government	\$ 56,071	\$ 54,684
Public safety	11,927	11,751
Public works	41,730	4,546
Highways and streets	9,360	82,566
Planning, zoning and inspector	<u>3,896</u>	<u>3,683</u>
 Total	 <u>\$ 122,984</u>	 <u>\$ 157,230</u>

Expenditures are down by \$34,246 or 22% over the prior year mostly due to the construction of a bridge in the prior year. The prior year bridge construction was partially offset by the costs of the newly added curbside rubbish removal.

General Fund Budgetary Highlights

Over the course of the year, the Township revises its budget to reflect changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the Township's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements. There were no changes to the General Fund original budget. The differences between the budget and the final actual amounts are as follows:

- Actual revenues were over budgeted revenues by \$8,743. The difference is mainly due to more property tax revenues being collected in the current year than expected. Most other revenues also experienced slightly more collected than budgeted. The increase in property taxes was partially off-set by a decrease in special assessment revenue. This decrease is due to the fact that not all special assessment revenues had been collected. Clare County will reimburse the Township for the uncollected amount with the 2006 tax settlement.
- Actual expenditures were under the budgeted expenditures by \$120,967. The difference is due to a delay in the construction of a road project. There was also less expended in general government due to no cemetery improvement project, annual audit, and no improvements to the hall. Also, less was expended for improvements to the Tonkin Drain than budgeted.

ARTHUR TOWNSHIP
Management's Discussion and Analysis
For the Year Ended March 31, 2006

Capital Assets

At March 31, 2006, the Township had \$82,999 invested in a broad range of capital assets, including land, buildings, furniture, and equipment. This amount represents a net increase (including additions and disposals) of \$3,540, or 4 %, over last year.

	<u>2006</u>	<u>2005</u>
Land	\$ 3,000	\$ 3,000
Buildings and improvements	4,420	4,420
Machinery and equipment	<u>92,100</u>	<u>86,500</u>
Total capital assets	99,520	93,920
Less accumulated depreciation	<u>16,521</u>	<u>14,461</u>
Net capital assets	<u><u>\$ 82,999</u></u>	<u><u>\$ 79,459</u></u>

This year's addition of \$5,600 was for a donated voting machine from the State of Michigan.

We anticipate capital additions will be the purchase of a lawn tractor for the cemetery and other Township grounds. We present more detailed information about our capital assets in the notes to the financial statements.

Factors Expected to Have an Effect on Future Operations

We expect to see a decline in state shared revenue next year as the State of Michigan continues to face challenges in balancing its budget. We will need to adjust Township expenditures in response to any revenue shortfall.

Requests For Information

This financial report is designed to provide a general overview of the Township's finances for all those with an interest in the Arthur Township. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Arthur Township
2500 South Hoover Road
Gladwin, MI 48624

ARTHUR TOWNSHIP
Statement of Net Assets
March 31, 2006

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash and cash equivalents	\$ 147,530
Prepaid expenses	5,274
Due from other funds	18,100
Due from other governmental units	4,156
Capital assets net of accumulated depreciation of \$16,521	<u>82,999</u>
Total Assets	<u>258,059</u>
 <u>Net Assets</u>	
Invested in property and equipment	82,999
Restricted for rubbish removal	7,703
Restricted for road repairs and maintenance	(8,382)
Unrestricted	<u>175,739</u>
Total Net Assets	<u>\$ 258,059</u>

See accompanying notes to financial statements.

ARTHUR TOWNSHIP
Statement of Activities
For the Year Ended March 31, 2006

<u>Functions/Programs</u>	<u>Program Revenue</u>			<u>Governmental</u>
	<u>Expenses</u>	<u>Charges for</u>	<u>Capital</u>	<u>Activities</u>
		<u>Services</u>	<u>Grants and</u>	<u>Net (Expense)</u>
			<u>Contributions</u>	<u>Revenue and</u>
				<u>Changes in</u>
				<u>Net Assets</u>
Primary Government -				
Governmental activities:				
Operating:				
General government	\$ 56,631	\$ 3,930	\$ 5,600	\$ (47,101)
Public safety	11,927	2,000	0	(9,927)
Public works	41,730	19,370	0	(22,360)
Highways and streets	9,360	2,229	0	(7,131)
Planning, zoning and inspector	3,896	250	0	(3,646)
Recreation and culture	1,500	0	0	(1,500)
Total governmental activities	<u>\$ 125,044</u>	<u>\$ 27,779</u>	<u>\$ 5,600</u>	<u>(91,665)</u>
				48,809
				46,173
				2,427
				1,510
				98,919
				7,254
				250,805
				\$ 258,059

See accompanying notes to financial statements.

ARTHUR TOWNSHIP
Governmental Fund
Balance Sheet
March 31, 2006

ASSETS

	General Fund
Cash and cash equivalents	\$ 147,530
Prepaid expenditures	5,274
Due from other funds	18,100
Due from other governmental units	4,156
	<hr/>
Total Assets	\$ 175,060
	<hr/>

FUND BALANCE

<u>Fund Balance</u>	
Reserved for rubbish removal	\$ 7,703
Reserved for road repair and maintenance	(8,382)
Unreserved and undesignated	175,739
	<hr/>
Total Fund Balance	\$ 175,060
	<hr/>

See accompanying notes to financial statements.

ARTHUR TOWNSHIP
Reconciliation of Balance Sheet of Governmental Fund
to the Statement of Net Assets
March 31, 2006

Total fund balance - governmental fund	\$ 175,060
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	
Cost of the capital assets	99,520
Accumulated depreciation	(16,521)
	<hr/>
Total net assets - governmental activities	<u>\$ 258,059</u>

See accompanying notes to financial statements.

ARTHUR TOWNSHIP
Governmental Fund
Statement of Revenues, Expenditures and
Changes in Fund Balance
For the Year Ended March 31, 2006

	General Fund
<u>Revenues</u>	
State shared revenues	\$ 46,173
Special assessments	19,370
Property taxes	48,503
Fees and services	6,180
Interest	2,427
Miscellaneous	4,045
Total revenues	<u>126,698</u>
<u>Expenditures</u>	
Current	
General government	54,571
Public safety	11,927
Public works	41,730
Highways and streets	9,360
Planning, zoning and inspector	3,896
Recreation and culture	1,500
Total expenditures	<u>122,984</u>
Excess of	
revenues over expenditures	3,714
Fund balance - beginning of year	<u>171,346</u>
Fund balance - end of year	<u>\$ 175,060</u>

See accompanying notes to financial statements.

ARTHUR TOWNSHIP
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balance of Governmental Fund to the Statement of Activities
For the Year Ended March 31, 2006

Net change in fund balance - total governmental fund	\$ 3,714
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	
Depreciation expense	(2,060)
Governmental funds do not report donated capital assets as revenue; in the statement of activities the donated capital assets are recorded as income	<u>5,600</u>
Change in net assets of governmental activities	<u>\$ 7,254</u>

ARTHUR TOWNSHIP
Statement of Fiduciary Net Assets
March 31, 2006

	<u>Current Tax Fund</u>
<u>Assets</u>	
Cash	<u>\$ 19,333</u>
<u>Liabilities</u>	
Due to other governmental units	\$ 1,233
Due to other funds	<u> 18,100</u>
Total liabilities	<u>\$ 19,333</u>

See accompanying notes to financial statements

ARTHUR TOWNSHIP
Notes to Financial Statements
For the Year Ended March 31, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Arthur Township (Township) conform to U.S. generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant accounting policies used by Arthur Township:

Reporting Entity

Arthur Township is governed by an elected five member council (Board). The accompanying financial statements present the government.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. The effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as is the fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

ARTHUR TOWNSHIP
Notes to Financial Statements
For the Year Ended March 31, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, and claims and judgments are recorded only when payment is due.

Property taxes, state-shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

The Township reports the following major governmental fund:

The General Fund is the Township's primary operating fund. It accounts for all financial resources of the Township, except those required to be accounted for in another fund.

Assets, Liabilities, and Net Assets or Equity

Deposits and Investments – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables – In general, outstanding balances between funds are reported as "due to/from other funds."

ARTHUR TOWNSHIP
Notes to Financial Statements
For the Year Ended March 31, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each December 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

Capital Assets – Capital assets, which include land, buildings and machinery and equipment are reported in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of 5 years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add value or materially extend asset lives are not capitalized.

Building, vehicles, and equipment are being depreciated using the straight-line method over the following useful lives:

Buildings	40 Years
Building improvements	10 to 20 Years
Vehicles	10 to 15 Years
Office equipment	5 to 15 Years
Computer equipment	3 to 5 Years

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

ARTHUR TOWNSHIP
Notes to Financial Statements
For the Year Ended March 31, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates – The process of preparing the basic financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Accounting Change – Effective April 1, 2005, the Township implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34). Changes to the Township's financial statements as a result of GASB No. 34 are as follows:

A Management's Discussion and Analysis (MD&A) section providing analysis of the Township's overall financial position and results of operations has been included.

Government-wide financial statements (statement of net assets and statement of activities) prepared using full accrual accounting for all of the Township's activities have been provided.

Capital assets in the governmental activities column of the statement of net assets includes assets totaling \$93,920 less accumulated depreciation of \$14,461.

The following is a reconciliation of beginning net assets:

Fund balance – March 31, 2005	\$171,346
Capital assets	93,920
Accumulated depreciation	<u>(14,461)</u>
Net assets – March 31, 2006	<u>\$250,805</u>

ARTHUR TOWNSHIP
Notes to Financial Statements
For the Year Ended March 31, 2006

NOTE 2 – BUDGETS

The State of Michigan adopted a Uniform Budgeting and Accounting Act (Act) applicable to all local governmental entities in the state. The law requires appropriation acts to be adopted for General and Special Revenue Funds of governments prior to the expenditure of monies in a fiscal year.

Arthur Township follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The Township's supervisor submits to the Board a proposed budget prior to April 1 of each year. The budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Budgeted amounts are as originally adopted, or as amended by the Board throughout the year. Individual amendments were not material in relation to the original appropriations. Budgets are adopted to the functional level.
4. Appropriations lapse at year-end. These appropriations are re-established at the beginning of the following year.

A comparison of actual results of operations to the budgeted amounts (at the level of control adopted by the Board) for the General Fund is presented as Required Supplemental Information.

ARTHUR TOWNSHIP
Notes to Financial Statements
For the Year Ended March 31, 2006

NOTE 3 – DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the local governmental unit to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rates within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. The Township's deposits are in accordance with statutory authority.

At year-end, the Township's deposits were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Fund</u>	<u>Total</u>
Cash and cash equivalents	\$ 147,530	\$ 19,333	\$ 166,863

Custodial Credit Risk- Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. As of March 31, 2006, none of the Township's bank balance of \$167,308 was exposed to custodial credit risk.

The Township's investment policy does not identify interest rate risk, foreign currency risk or concentration credit risk.

The Township has no investments as of March 31, 2006

ARTHUR TOWNSHIP
Notes to Financial Statements
For the Year Ended March 31, 2006

NOTE 4 – CAPITAL ASSETS

Capital asset activity of the Township for the current year was as follows:

	Balance April 1, 2005	Additions	Disposals and Adjustments	Balance March 31, 2006
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 3,000	\$ 0	\$ 0	\$ 3,000
Capital assets being depreciated:				
Buildings and improvements	4,420	0	0	4,420
Machinery and equipment	86,500	5,600	0	92,100
Subtotal	90,920	5,600	0	96,520
Less accumulated depreciation for:				
Buildings and improvements	111	110	0	221
Machinery and equipment	14,350	1,950	0	16,300
Subtotal	14,461	2,060	0	16,521
Net capital assets being depreciated	76,459	3,540	0	79,999
Governmental Activities, Total				
Capital Assets - net of depreciation	<u>\$ 79,459</u>	<u>\$ 3,540</u>	<u>\$ 0</u>	<u>\$ 82,999</u>

Depreciation expense was charged to programs of the Township as follows:

Governmental Activities:	
General government	<u>\$ 2,060</u>

ARTHUR TOWNSHIP
Notes to Financial Statements
For the Year Ended March 31, 2006

NOTE 5 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

A summary of inter-fund receivable and payable balances at March 31, 2006 is as follows:

<u>Fund</u>	<u>Receivables</u>	<u>Payables</u>
General	\$ 18,100	\$ 0
Tax Fund	<u>0</u>	<u>18,100</u>
	<u>\$ 18,100</u>	<u>\$ 18,100</u>

There were no interfund transfers during the fiscal year.

NOTE 7 – RISK MANAGEMENT

Arthur Township is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation). Arthur Township participates in the Michigan Municipal League risk pool for claims relating to relating to workers' compensation, general liability, and property/casualty claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The Michigan Municipal Risk Management Authority risk pool program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Authority, that the Authority uses to pay claims up to the retention limits, the ultimate liability for those claims remains with Arthur Township.

The Michigan Municipal Risk Management Authority's State Pool program operates as a common risk-sharing management program for local units of government in Michigan. Member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts. A portion of the excess insurance coverage is underwritten by the Authority itself.

ARTHUR TOWNSHIP
Notes to Financial Statements
For the Year Ended March 31, 2006

NOTE 7 – RISK MANAGEMENT (CONTINUED)

The Michigan Townships Participating Plan operates as an insurance purchasing pool for local units of government in Michigan. The Plan purchases commercial insurance on behalf of its members at a lower cost than would be available on an individual basis.

Required Supplemental Information

ARTHUR TOWNSHIP
Required Supplemental Information
Budgetary Comparison Schedule - General Fund
For the Year Ended March 31, 2006

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
<u>Revenues</u>				
State shared revenues	\$ 44,000	\$ 44,000	\$ 46,173	\$ 2,173
Special assessments	25,500	25,500	19,370	(6,130)
Property taxes	42,000	42,000	48,503	6,503
Fees and services	4,800	4,800	6,180	1,380
Interest	500	500	2,427	1,927
Miscellaneous	1,155	1,155	4,045	2,890
Total revenues	<u>117,955</u>	<u>117,955</u>	<u>126,698</u>	<u>8,743</u>
<u>Expenditures</u>				
Current				
General government	99,246	99,246	54,571	44,675
Public safety	13,000	13,000	11,927	1,073
Public works	51,695	51,695	41,730	9,965
Highways and streets	70,000	70,000	9,360	60,640
Planning, zoning and inspector	8,010	8,010	3,896	4,114
Recreation and culture	2,000	2,000	1,500	500
Total expenses	<u>243,951</u>	<u>243,951</u>	<u>122,984</u>	<u>120,967</u>
Excess of revenues over expenditures	(125,996)	(125,996)	3,714	129,710
Fund balance-beginning of year	<u>171,346</u>	<u>171,346</u>	<u>171,346</u>	<u>0</u>
Fund balance-end of year	<u>\$ 45,350</u>	<u>\$ 45,350</u>	<u>\$ 175,060</u>	<u>\$ 129,710</u>

See accompanying notes to financial statements.



WEINLANDER FITZHUGH

CERTIFIED PUBLIC ACCOUNTANTS
& CONSULTANTS

ROBERT E. LIST, CPA
STEWART J. REID, CPA
MICHAEL L. HANISKO, CPA
DAVID D. QUIMBY, CPA
KATHLYN M. ENGELHARDT, CPA
RENA E. M. CLEVINGER, CPA
AMY L. RODRIGUEZ, CPA
SCOTT A. NIETZKE, CPA

June 6, 2006

WALTER G. WEINLANDER, CPA
ROY A. SCHAIER, CPA
JAMES L. WHALEY, CPA
JEROME L. YANTZ, CPA
PHILIP T. SOUTHGATE, CPA
ROBERT J. DUYCK, CPA

Township Board
Township of Arthur
Clare County, Michigan

This letter is intended to inform the Township Board about significant matters related to the conduct of the annual audit so it can appropriately discharge its oversight responsibility and that we comply with our professional responsibilities to the Township Board.

The following summarizes various matters which must be communicated to you under U.S. generally accepted auditing standards.

The Auditor's Responsibility Under U.S. Generally Accepted Auditing Standards

Our audit of the financial statements of the Township of Arthur for the year ended March 31, 2006 was conducted in accordance with U.S. generally accepted auditing standards. Those standards require we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error, fraudulent financial reporting or misappropriation of assets. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Accordingly, the audit was designed to obtain reasonable, rather than absolute, assurance about the financial statements. We believe our audit accomplished that objective.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. Management has informed us they used all the relevant facts available to them at the time to make the best judgments about accounting estimates and we considered this information in the scope of our audit. These estimates are relatively insignificant in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. Our audit adjustments were not significant.

601 BEECH STREET
POST OFFICE BOX 297
CLARE, MI 48617
989-386-3481
FAX 989-386-3462
www.wf-cpas.com
wf@wf-cpas.com

OFFICES: BAY CITY, CLARE
GLADWIN AND WEST BRANCH

RSM McGladrey Network

An Independently Owned Member



WEINLANDER FITZHUGH

Township Board
Township of Arthur
June 6, 2006
Page 2

Accounting Policies and Alternative Treatments

Management and the Township Board have the ultimate responsibility for the appropriateness of the accounting policies used by the Township. The significant accounting policies adopted by the Township are described in Footnote 1 to the financial statements.

Disagreements with Management

We encountered no disagreements with management over the application of significant principles, the basis for management's judgments on any significant matters, the scope of the audit or significant disclosures to be included in the financial statements.

Consultations with Other Accountants

We are not aware of any consultations management had with other accountants about accounting or auditing matters.

Major Issues Discussed with Management Prior to Retention

No major issues were discussed with management prior to our retention to perform the aforementioned audit.

Difficulties Encountered in Performing the Audit

We did not encounter any difficulties in dealing with management relating to the performance of the audit.

Closing

We will be pleased to respond to any questions you have about the foregoing. We appreciate the opportunity to continue to be of service to Arthur Township.

This report is intended solely for the information and use of the Township Board and management and is not intended to be, and should not be, used by anyone other than the specified parties.

Weinlander Fitzhugh